



INVESTMENTS IN THE MANUFACTURING AND SERVICES SECTORS



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STRATEGIES AND POLICIES

INVESTMENT⁵ TARGETS

1.01 During the IMP3 period, Malaysia's GDP is targeted to grow at an average annual rate of 6.3 per cent. In line with this target, implications on investments include:

- total investments growing at a rate of 7.7 per cent per annum;
- private investments growing at 10.2 per cent per annum;
- share of private investments to the GDP increasing from 8.9 per cent in 2005 to 11.6 per cent in 2020;
- size of private investments required for the manufacturing and services sectors:

Manufacturing sector

- RM412.2 billion for the whole period, or an average annual investment level of RM27.5 billion;
- breakdown for each five-year period:
2006-2010 : RM101.1 billion
2011-2015 : RM135.5 billion
2016-2020 : RM175.6 billion

Services sector

- RM687.7 billion for the whole period, or an average annual investment level of RM45.8 billion;
- breakdown for each five-year period:
2006-2010 : RM92.6 billion
2011-2015 : RM210.7 billion
2016-2020 : RM384.4 billion

Details of the investment targets are in Table 1.1; and

- for the manufacturing and services (excluding Government services, financial services and utilities) sectors, the targeted ratio of domestic investments to FDIs is 60:40.

⁵ For the purpose of targeting, investments refer to gross fixed capital formation, which comprises investments in fixed assets, such as buildings, plant, machinery and equipment.

TABLE 1.1

INVESTMENT TARGETS

| <i>Breakdown of Investments</i> | 2006-2010 | 2011-2015 | 2016-2020 | 2006-2020 |
|---|---------------------------------|--------------|----------------|----------------|
| | <i>(RM billion¹)</i> | | | |
| Total Investments | 634.5 | 934.5 | 1,325.4 | 2,894.4 |
| Private | 310.0 | 520.2 | 808.0 | 1,638.2 |
| Public | 324.5 | 414.4 | 517.3 | 1,256.2 |
| Total Private Investments | 310.0 | 520.2 | 808.0 | 1,638.2 |
| Manufacturing | 101.1 | 135.5 | 175.6 | 412.2 |
| Services | 92.6 | 210.7 | 384.4 | 687.7 |
| Agriculture | 31.9 | 54.8 | 82.3 | 169.0 |
| Mining | 40.0 | 59.0 | 80.9 | 179.9 |
| Construction | 44.4 | 60.2 | 84.8 | 189.4 |
| Overall Average Annual Private Investments | 62.0 | 104.0 | 161.7 | 109.2 |
| Manufacturing | 20.2 | 27.1 | 35.1 | 27.5 |
| Services | 18.5 | 42.1 | 76.9 | 45.8 |
| Agriculture | 6.4 | 11.0 | 16.5 | 11.3 |
| Mining | 8.0 | 11.8 | 16.2 | 12.0 |
| Construction | 8.9 | 12.0 | 17.0 | 12.6 |

Note: ¹ Current prices

Source: Ministry of International Trade and Industry

STRATEGIC THRUSTS

1.02 Strategies and policies on investments will contribute towards sustaining industrial growth, accelerating industrial restructuring and raising the level of competitiveness of the economy. To address the challenges and facilitate the achievement of the targets for investments under the IMP3, eight strategic thrusts have been set:

- (1) competing globally for FDIs by targeting and having a more focused approach;
- (2) raising the level of competitiveness and productivity of the manufacturing and services sectors and positioning Malaysia as a major manufacturing hub and service provider in the global supply chains;

- (3) positioning industries to benefit from bilateral, regional and multilateral agreements related to investments;
- (4) enhancing private domestic investments, including investments by Government-linked companies (GLCs) and SMEs;
- (5) promoting outward investments by Malaysian companies;
- (6) diversifying into services sub-sectors which have potential for investments and exports;
- (7) continuing the progressive liberalisation of the equity policy in the services sector, including opening up sub-sectors which have export potential; and
- (8) making the environment more conducive for investments, including the institutional and infrastructure support, regulatory regime and the delivery system.

(1) COMPETING GLOBALLY FOR FOREIGN DIRECT INVESTMENTS

1.03 With the intensification of competition for FDIs globally, Malaysia will adopt a more focused approach in its drive to attract FDIs. Elements of this approach include:

- establishing specialised technology parks for certain promoted industries;
- identifying and encouraging specific potential investors to invest in targeted industries and sub-sectors;
- adopting faster decision making process for targeted investors; and
- organising specialised investment and trade missions on a regional basis, based on industries and sub-sectors to be promoted.

(2) INTEGRATING MALAYSIA INTO THE GLOBAL SUPPLY CHAINS

1.04 Malaysia will need to enhance its integration in the global supply chains, with the aim of gaining a bigger share of the global production and services networks. Products and activities with growth potential will be identified for investments and exports. MNCs which are substantially involved in the international production networks will be encouraged to establish and expand their operations in Malaysia. In addition, policy measures will be introduced to attract greater investment flows. More Malaysian companies will be encouraged to explore opportunities to participate in these international production networks.

(3) POSITIONING INDUSTRIES TO BENEFIT FROM INTERNATIONAL AGREEMENTS

1.05 Malaysia will continue to participate in international agreements which can enhance trade and investment flows. These agreements will facilitate efforts to integrate Malaysia into the global economy. Strategies which will be pursued include:

- initiating more bilateral or regional economic agreements and FTAs with Malaysia's trading partners, including potential markets, for example, countries of the Organisation of the Islamic Conference (OIC);
- enhancing cooperation and collaboration with the business sector to ensure that the international agreements entered into are relevant and provide the enabling environment and opportunities for the greater growth and development of Malaysia's business sector;
- reviewing investment provisions in bilateral and regional investment agreements to improve the investment environment, including enhancing the transparency and predictability of investment policies and measures; and
- working towards the realisation of the AIA and AEC.

1.06 Industries will be encouraged to prepare and equip themselves to be able to benefit from the various agreements. Efforts include:

- undertaking progressive liberalisation of sub-sectors which are presently under various forms and levels of protection;
- encouraging the consolidation of companies to strengthen their capabilities and enable them to expand their operations overseas; and
- encouraging GLCs to diversify their investments overseas, which presently are mainly in oil and gas, and telecommunications. The diversification efforts will take advantage of opportunities arising from the various agreements.

(4) ENHANCING PRIVATE DOMESTIC INVESTMENTS

1.07 Measures to sustain and enhance the growth of private domestic investments include:

- assisting and facilitating domestic companies, including GLCs, which have the capacity to expand into the potential growth areas;
- focusing on industries and sub-sectors which have export potential and competitive advantage, such as food products, including *halal* foods, palm biomass products and oleochemical derivatives, and machinery and equipment, including engineering support services, and biotechnology; and

- reviewing incentive schemes and assistance programmes to promote reinvestments, outsourcing, branding, R&D (including commercialisation), design and development (D&D), standards conformance and automation.

(5) PROMOTING OUTWARD INVESTMENTS

1.08 Outward investments have the potential to bring in economic benefits to Malaysia, in the form of access to new markets, maintaining market share and sourcing raw material inputs and components for domestic industries. In addition, the repatriation of profits from such investments to Malaysia will improve the country's BOP.

1.09 The Government will continue to encourage and promote the growth of Malaysian investments overseas, including investments by GLCs. Initiatives which will be undertaken include:

- encouraging financial and banking institutions to support Malaysian companies which are keen to establish their operations overseas;
- encouraging outward M&As by Malaysian companies;
- encouraging the development of industrial parks overseas to facilitate outward investments by Malaysian companies; and
- establishing offices in targeted countries to assist Malaysian companies intending to invest in those countries.

(6) DIVERSIFYING INTO THE SERVICES SECTOR

1.10 A comprehensive plan for the promotion of investments in the services sector will be formulated. The plan will incorporate:

- targeted sub-sectors to be promoted, including selected business and professional services, and services related to health, education, tourism, distributive trade and logistics;
- initiatives and policy measures to increase investments in the targeted sub-sectors;
- measures to upgrade domestic capabilities in the sector; and
- a more coordinated, effective and business friendly institutional delivery and regulatory system.

(7) PROGRESSIVE LIBERALISATION OF THE EQUITY POLICY

- 1.11 The equity policy in the services sector will be progressively liberalised to integrate the sector into the global marketplace, similar to the equity policy in the manufacturing sector, which has been progressively liberalised over the years. Sub-sectors which are ready for liberalisation will be identified. Presently, sub-sectors which have been opened up for foreign participation include education and training, and specialised tourism projects.

(8) INSTITUTIONAL AND OPERATING ENVIRONMENT

(i) Delivery System

- 1.12 Measures to improve the Government delivery system include:

- introducing a standardised system or mechanism for the various levels of approvals, involving the Federal and State Governments and Local Authorities; and
- exempting projects located in approved industrial estates or zones from having to apply for planning permits.

(ii) Licensing and Incentive Mechanism

- 1.13 Companies exempted from licensing under the Industrial Coordination Act (ICA) will be required to register, to enable the compilation of comprehensive data on the manufacturing sector. In addition, this will assist and facilitate the Government in providing support and services to a greater number of SMEs. A new approach in the processing of incentives will be considered to improve the approval process and shorten the response time to investors.

(iii) Private Sector Representation in Local Authorities or Councils

- 1.14 Local authorities or councils will be required to have private sector representatives, such as from the chambers of commerce, and trade and industry associations. This is to ensure that the legitimate concerns of the business community are taken into consideration in formulating rules and regulations. If necessary, amendments to the relevant legislations will be made.

(iv) Incentive Regime

- 1.15 Incentive schemes will continue to be an important policy instrument to promote and attract investments in the targeted industries and sub-sectors. To sustain Malaysia's competitiveness, the incentive system will be reviewed. Key areas to be covered include:
- review of the corporate income tax system;

- continual review of incentive packages so that Malaysia's incentive regime remains attractive. Areas of improvement include the terms and conditions of Pioneer Status and Investment Tax Allowance;
- review of the list of promoted activities, in line with the more focused and targeted growth areas;
- improvement of the institutional aspects and the delivery system for incentives and financial assistance, including the mechanism for the granting of double deduction for R&D; and
- review of current approaches in attracting investors to the states, for example, by providing incentives and other assistance, through an Investment Fund, to complement the incentives offered by the Federal Government.

(v) Strategic Investment Fund

- 1.16 A Pre-Packaged Incentive Scheme is in place to attract high quality investments in projects which are of high technology and knowledge-intensive, involve R&D and have strong linkages. It is expected that during the IMP3 period, there will be more investments in high technology and strategic industries.
- 1.17 Under the RMK-9, the Strategic Investment Fund has been created to support the pre-package incentives scheme. The Government has provided an allocation of RM600 million for the fund. The Government will continue to provide the necessary allocations for the fund during the subsequent five-year Malaysia Plans, to cover the remainder of the IMP3 period, 2011-2020.

(vi) Automation Fund

- 1.18 Automation will not only improve efficiency, quality, productivity and the overall competitiveness of companies, but also reduce their dependency on less-skilled workers, especially foreign workers. The Government has set up an automation fund under the RMK-9 to encourage industries to modernise and automate their manufacturing processes. Allocations for the fund will continue to be provided by the Government during the subsequent five-year Malaysia Plans.

(vii) Industrial Adjustment Fund

- 1.19 With globalisation and liberalisation measures under the AFTA and bilateral FTAs, companies, including SMEs, will be encouraged to rationalise, consolidate and upgrade their production capacities and capabilities to sustain their businesses and enhance their competitiveness. The Government has set up an Industrial Adjustment Fund under the RMK-9 to assist companies in undertaking the rationalisation of their operations. The fund provides grants and loans at preferential interest rates to companies undertaking M&As, automation, modernisation and upgrading of their production capacities. For the period 2011-2020, the Government will continue to provide allocations for the fund.

(viii) Fund for the Adoption of New Technologies

- 1.20 With the rapid emergence and development of new technologies, a fund will be considered to assist companies in testing and adopting applications of these technologies into their production processes.

(ix) Grants for Research and Development

- 1.21 Presently, various incentive schemes are provided to promote R&D activities, including grants under the Ministry of Science, Technology and Innovation:

- Commercialisation of R&D Fund;
- Industry Grant Scheme; and
- MSC Grant Scheme.

There is a need to review and consolidate these grant schemes.

(x) Adequate Supply of Skilled Workforce

- 1.22 A policy to attract skills and talents will be formulated. Present immigration policies will be reviewed to facilitate the entry of foreign talents for a temporary or unlimited period, depending on the merits of each case. The potential supply of foreign expertise within the country will be tapped. This will be undertaken by allowing eligible spouses of expatriates and foreign residents in Malaysia, under the Malaysia My Second Home Programme, who have the specific skills and expertise, which are in short supply, to be employed in the relevant industries and sub-sectors.
- 1.23 Further liberalisation of training institutions will be explored to facilitate the establishment of new technical training institutions and the expansion of capacities of existing institutions. Malaysia will be developed into a centre for technical training in selected areas to serve domestic and regional needs.

(xi) Specialised Parks

- 1.24 Specialised high technology parks will be established for industries targeted for promotion in the IMP3. These parks will be equipped with the required physical infrastructure and supported by the availability of skilled workforce and support industries to provide a favourable and conducive environment for investors. Presently, there is a high technology park in Malaysia, namely, Kulim High Technology Park.
- 1.25 In the short term, a new high technology park will be established to cater for the needs of high technology and capital-intensive industries, and R&D activities. In addition, during the course of the IMP3 period, the requirement for additional parks

dedicated to specific industries, such as biotechnology and pharmaceuticals, will be considered to be developed. In pursuing a targeted investment approach during the IMP3 period, appropriate facilities will be provided to enhance the investment environment and attract specific industries to the country.

- 1.26 Existing industrial estates will be upgraded to attract further investments. Developers will be encouraged to ensure that industrial estates have the requisite facilities. The existing petrochemical industrial complexes in Kertih, Gebeng and Pasir Gudang-Tanjung Langsat will be further integrated. An offshoot of these petrochemical complexes will be the establishment of a plastics park, located in the vicinity of the petrochemical complexes, to cater for downstream activities.

(xii) Quality and Reliable Supply of Utilities

- 1.27 Provision of reliable and high quality utilities is important for greater industrial growth. The expected expansion in the manufacturing and services sectors will increase the demand for related infrastructure and utilities, such as telecommunications, electricity, gas and water. Measures which will be undertaken include:
- making available secure, reliable, quality and cost-effective supply of utilities;
 - improving the water distribution system and water treatment plants and making available the supply of water at competitive rates; and
 - improving the quality of broadband infrastructure and increasing the penetration rate of broadband services at competitive tariffs.